

INFRASTRUCTURE FINANCE

User Fees for the Invisible User

For New Ideas, Look to the Past

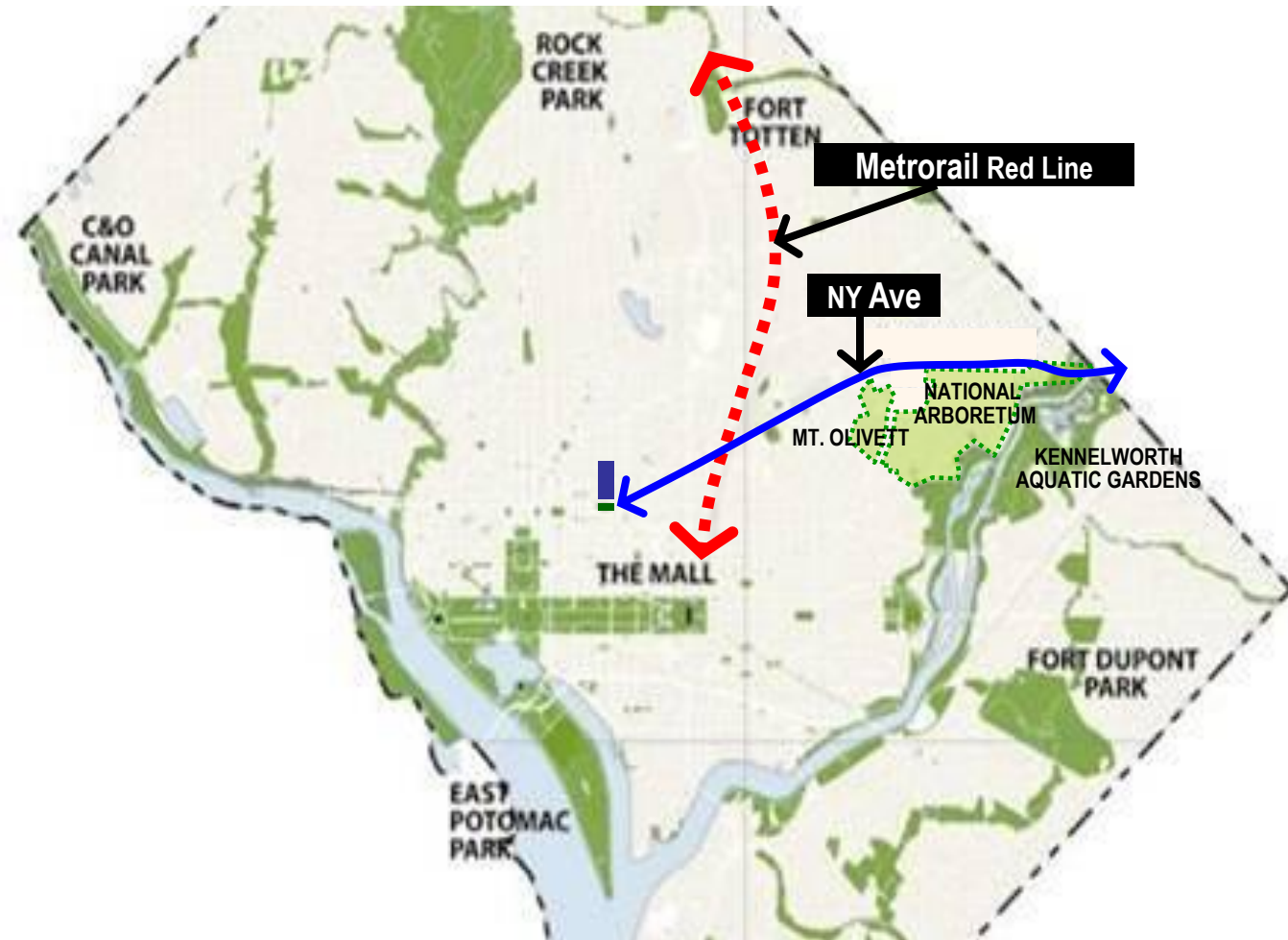
- In the 1800s, the District's streets were mostly unpaved.
- In wet weather, mud made roads difficult to navigate. In dry weather, they were dusty.
- Paving streets and sidewalks was a tremendous advance. It made properties more accessible and the air cleaner.
- Everyone would benefit.

- Although everyone would benefit, people whose property fronted a paved street benefited more than everyone else.
 - No longer would folks track dust, mud and MANURE into their homes & businesses!
- In 1894, Congress enacted a law requiring adjacent property owners to contribute 50% of the cost of first-time paving of streets, gutters, curbs and sidewalks through a special assessment.

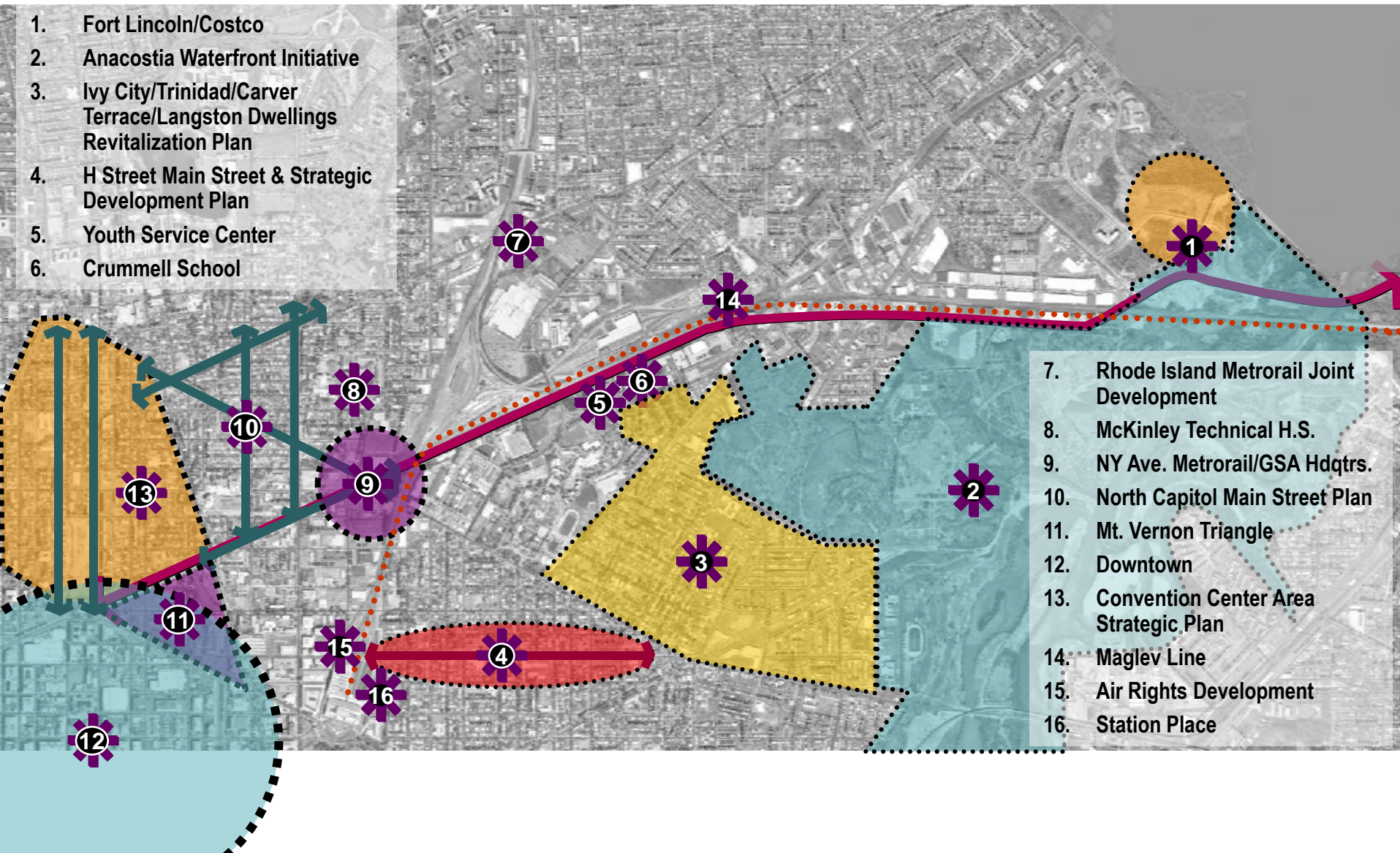
Applying the Past to the Present

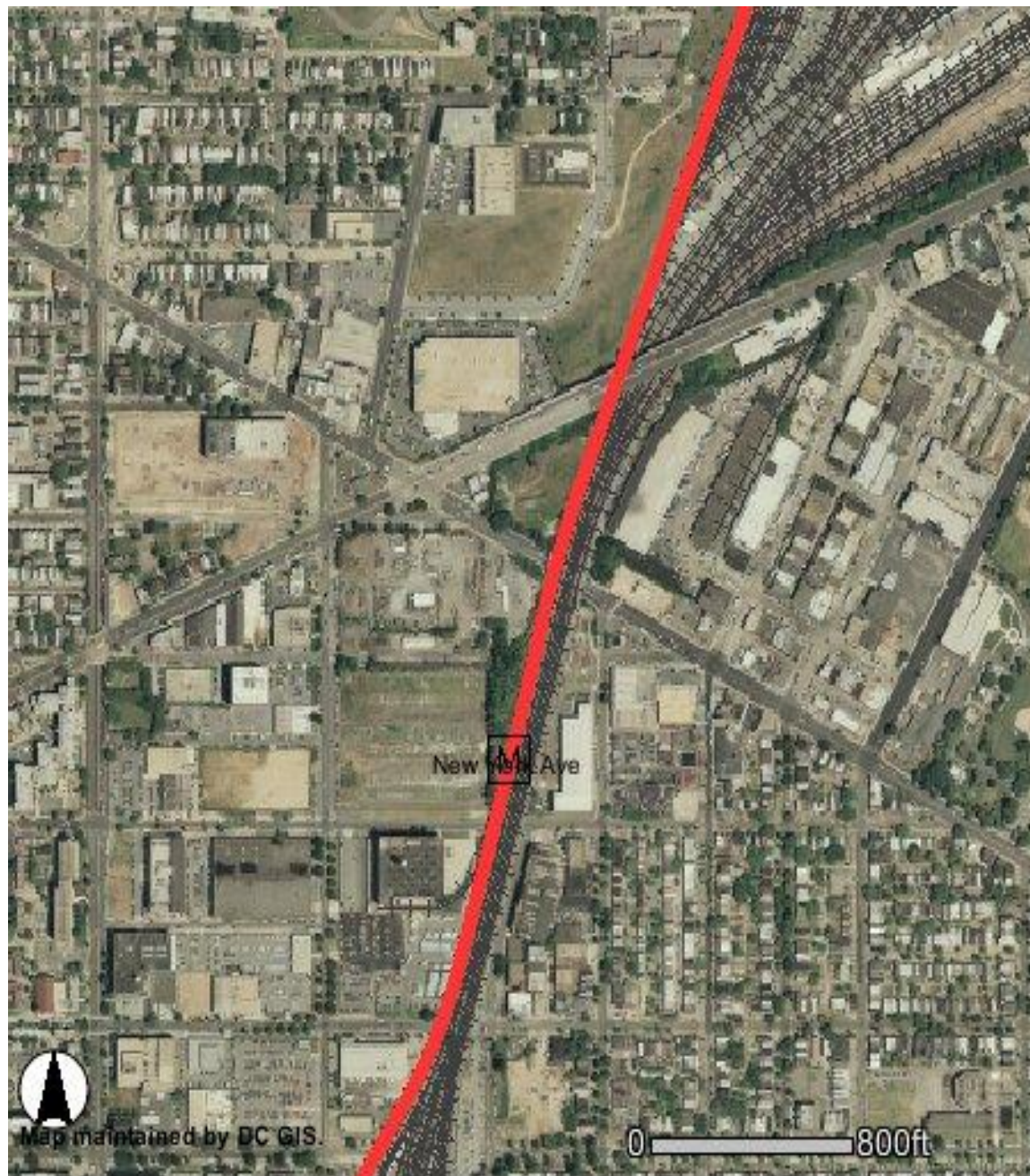
- In recent times, the crush of traffic along New York Avenue & North Capitol Streets inhibited residential and commercial activities there.
- The District Government supported creating a Metrorail station in the vicinity of the intersection of New York and Florida Avenues to alleviate congestion & promote development.
- But the District lacked the funds required to complete such a project.

New York Avenue Intersection with Metrorail Red Line



Union Station (16) to Rhode Island Ave Station (7)





- Just as the original paving of streets enhanced adjacent land values, Metrorail also increases the land values of properties that are near station entrances.
- Thus, landowners who would benefit financially from a new Metrorail station at this location could and should make a special contribution to help create it.

- When the landowners were informed that no station would be built without their assistance, they offered \$25 million.
- Congress was impressed by the private sector's willingness to contribute financially to the creation of public infrastructure. (They did not remember what their predecessors had insisted upon in the 1890s.)

- Congress appropriated \$25 million toward the station's construction, conditioned upon the collection of the private sector contribution.
- The landowner contribution was structured by selling a \$25 million bond that would be paid off by a special assessment levied against nearby landowners over 30 years.
- Landowners successfully lobbied the DC Council to enact a benefit assessment district and Congress fulfilled its promise.

- In addition to the \$25 million bond, two adjacent landowners donated property that, if condemned, would have cost the public an additional \$6 million.
- Total Cost of the project was between \$100 and \$110 million.
- Landowner contribution = 30%

What is the Potential for Private Sector Participation?

- In the mid 1990s, there was an old railroad yard just south of National Airport, across the river from Washington, DC.
- The pension fund that owned it proposed to develop it for mixed-use office, retail & residential.
- Local government officials rejected that proposal because the access road, Route 1, was already over capacity during rush hour

- BUT, the officials noted that a Metrorail line ran through the middle of the rail yard. “If you put a Metrorail station there, we could let you build a relatively dense, mixed-use TOD project.”
- The pension fund did the math and offered to pay **100% of the cost of designing & building a Metrorail station at this location.**

- What was unique about this situation? A single landowner could internalize most of the externalities associated with a new transit station.
- Most of the time, there are many owners.
- Multiple ownership does not negate the value created by public infrastructure – It only makes it more difficult to collect.

Can Infrastructure Be Financially Self-Sustaining?

- Most often, infrastructure generates higher land rents that are windfalls to landowners who did not create the infrastructure.
- Landowner are simply lucky enough or shrewd enough to appropriate the value that the infrastructure created.
- Capturing infrastructure-created value for the entity that created it, can help make infrastructure financially self-sustaining.

Value Capture Benefits

- Financial Viability
 - An often overlooked revenue stream
- Equitable & Comprehensible
 - Beneficiaries pay in proportion to the benefit they receive
- Beneficial Land Use Incentives
 - Recapturing Land Value Motivates Development Near Infrastructure

HOW TO PROCEED

- What kind of Infrastructure Project?
 - Are the benefits general or localized?
 - Project might create both types of benefits.
 - If localized and direct user fees are subsidized, the surplus benefits will probably be capitalized into land values.
- Are landowners willing to pay for the benefit they will receive or can they be compelled to do so?

Don't Use Jargon to Explain: Tell a Story

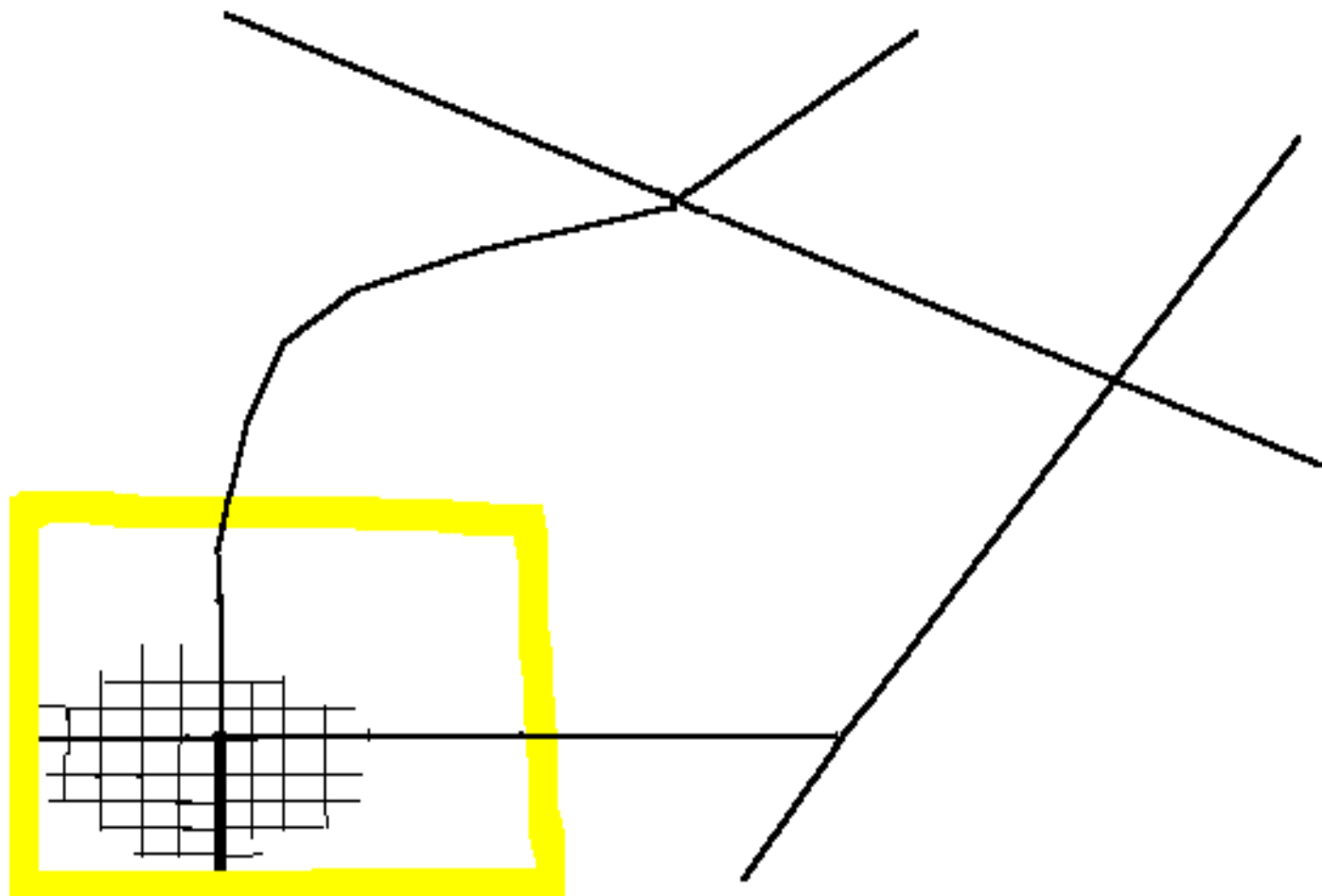
- “The beneficial and adverse externalities associated with transportation projects are often capitalized into land values.”
- Economists may think that they understand this, but everyone else will think that you're talking gibberish.
- Tell folks how much you love tomatoes!

How many times do you pay for infrastructure?

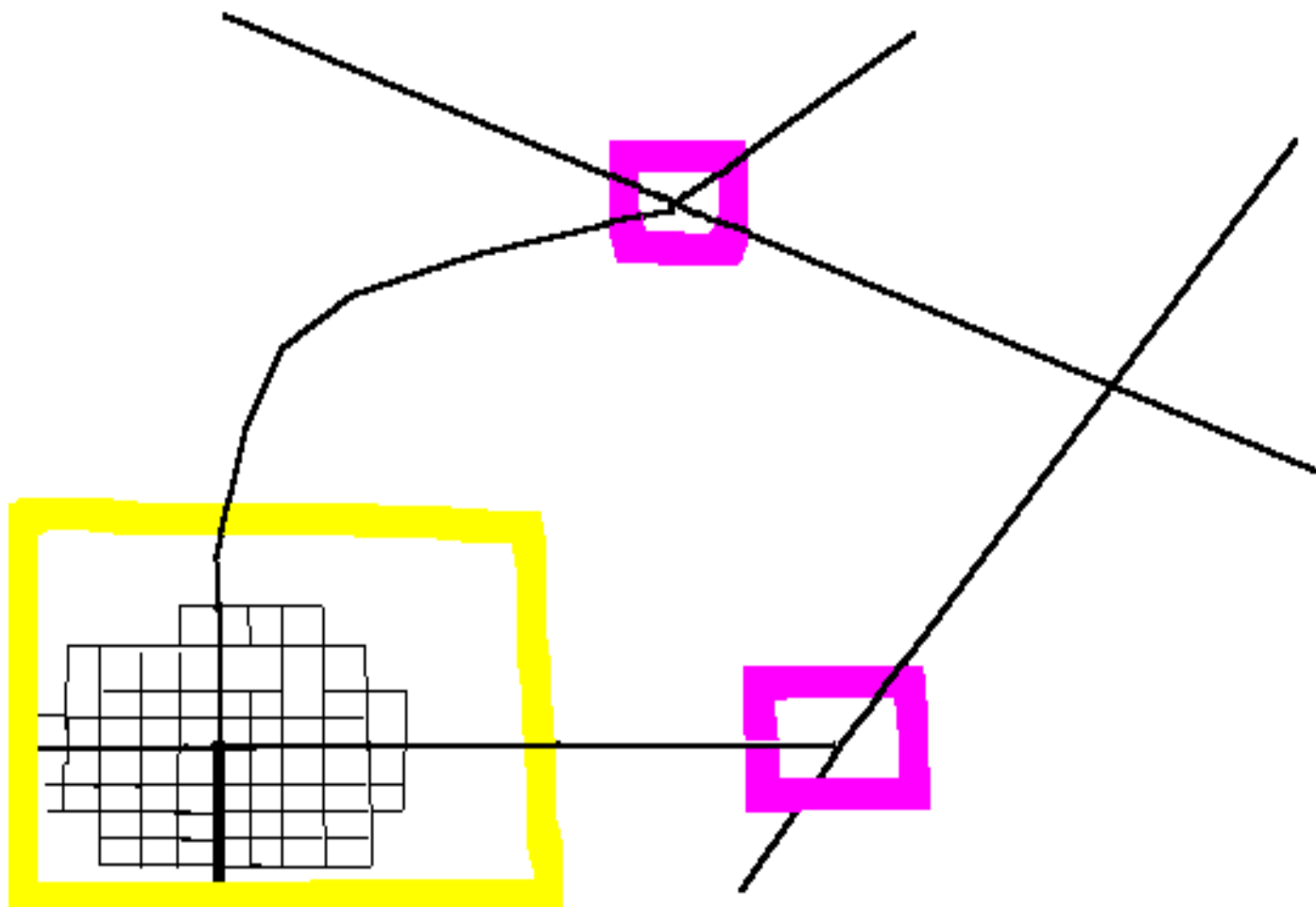
- The first time, by paying taxes
- A second time, by direct user fees
 - Tolls or fares
- A third time, in higher rent, to establish a home or a business in a location that benefits from infrastructure investment

Failure to Capture Value Is NOT A Benevolent Act of Generosity Nor Is It a Benign Oversight

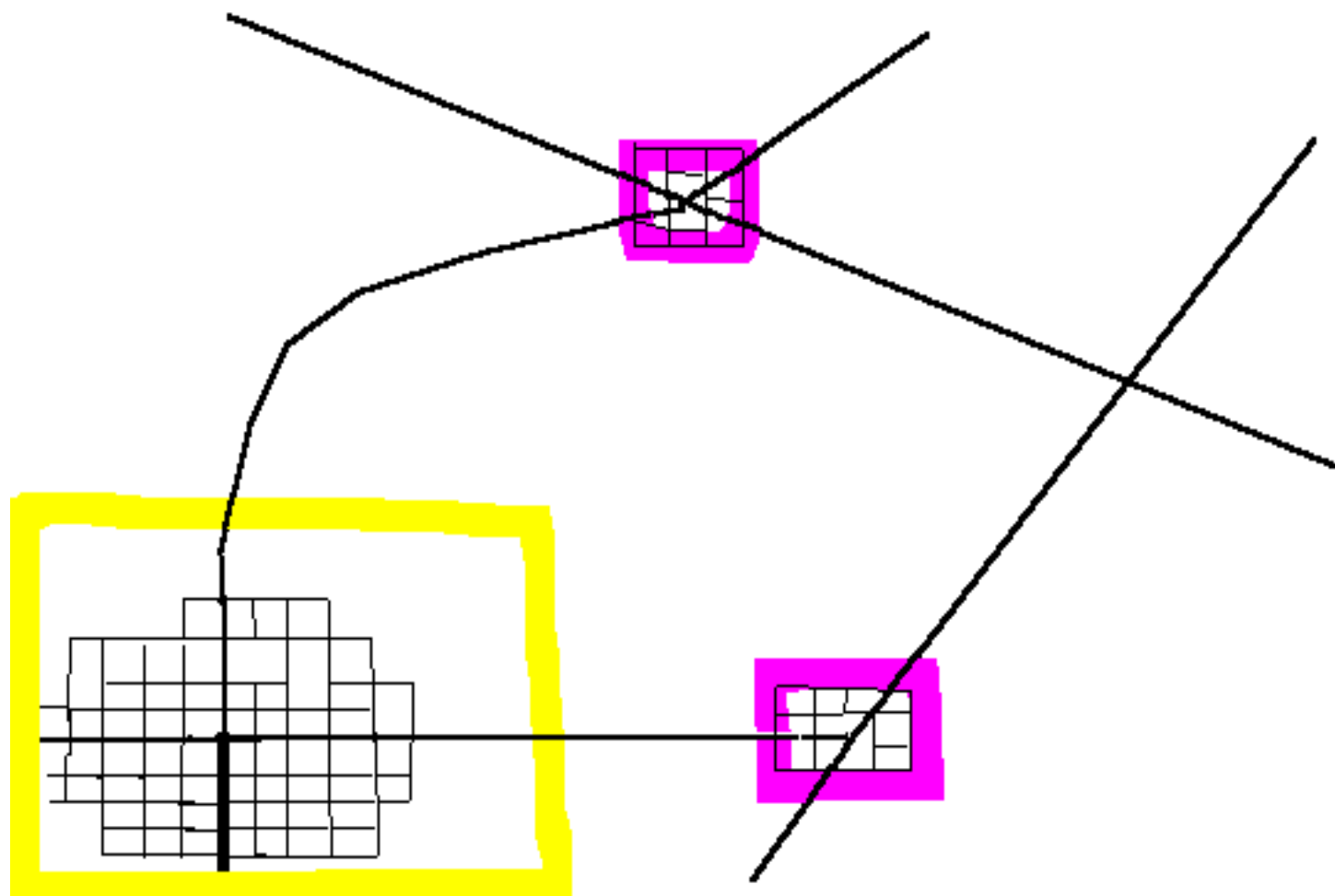
- Failure to capture publicly-created land values encourages land speculation.
- Land speculation inflates land prices and encourages sprawl.
- Sprawl undermines the potential benefits of infrastructure.
- Sprawl necessitates the duplication of infrastructure, at tremendous cost to the environment and the taxpayer.



Transp. Facility = Growth Opport.



Rising Land Costs Impede Growth



Growth Diverted to Cheap Sites

